FISCAL NOTE

Bill #:	SB470	**Title:**	4% sales and use tax; property tax reduction; individual income tax relief
Primary Sponsor:	Mangan, J	**Status:**	As Amended by Senate Tax Committee

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$8,264,314	$174,285,376
Revenue:		
General Fund	$0	$325,879,800
State Special Revenue–Stabilization & Disaster	$0	$2,399,200
State Special Revenue - University System	$0	$439,000
Net Impact on General Fund Balance:	($8,264,314)	$151,594,464

☒ Significant Local Gov. Impact ☒ Technical Concerns

☐ Included in the Executive Budget ☒ Significant Long-Term Impacts

☒ Dedicated Revenue Form Attached ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

General Retail Sales Tax

1. Beginning January 1, 2004, this bill would impose a 4% sales and use tax on retail sales of tangible personal property and services with the following exemptions: sales for resale or lease; health services; utilities; educational services; agricultural, forestry, fishing and hunting services; radio and television broadcasting; scheduled passenger transportation; farm product warehousing and storage; security brokerage fees; insurance commissions; services a corporation provides to an affiliate or subsidiary that is centrally assessed; telecommunications services subject to the retail telecommunications excise tax; gambling; sales by or to a government or tribe; advertising; unprepared food; prepared food that is part of a residential or health care arrangement; medicine, durable medical equipment, mobility enhancing equipment and therapeutic and prosthetic devices; motor fuels; lease of motor vehicles; most agricultural inputs, including machinery; agricultural products; minerals or chemicals used in processing ores; components used in manufacturing; and oilfield and mining equipment that must be abandoned in place.
2. In fiscal 2005, taxable sales would be $12,395.340 million, and tax liability would be $495.814 million. Vendors would collect taxes equal to 95% of tax liability, or $471.023 million.

3. There would be 55,000 businesses collecting the tax on their sales. Vendors with average tax liability of less than $2,500 a quarter would be allowed to file returns quarterly, and all others would file monthly. Each filing period, vendors would be allowed to retain vendor allowance of 5% of the first $100 of tax collected and 0.5% of tax collected in excess of $100 with a maximum allowance of $50 per reporting period. Vendor allowances in fiscal 2005 would be $3.559 million.
4. Taxes collected by vendors, less vendor allowances, would be paid to the state. Sales and use tax collections would be $467.464 million in fiscal 2005. All collections would be deposited in a new sales tax special revenue account.

Refundable School Equalization Property Tax Credit and Non-Levy Revenue Impact

5. Sections 65 allows for a school equalization credit, not to exceed $5,000, against individual income tax or corporation license or income tax, in an amount equal to the property tax reported to property taxpayers for the statewide mill levies (33, 22, 40 mills for the state general fund, and 6 mills for the university system). The credit is a *refundable* credit, meaning if the credit for the property taxes reported is more than the amount of income tax owed, the excess must be refunded to the taxpayer. County treasurers will be required to itemize the total amount of tax due towards the statewide mills on the property tax notices sent to all property taxpayers.
6. Under the proposal, property taxes *reported* for statewide mill levies to taxpayers in calendar year 2004 would be allowable under the credit for individual and corporate income taxes paid in calendar year 2005 (fiscal 2005). The credit would first impact individual income tax collections in FY 2004 (April 15th due date). The credit would first impact corporate income tax collections in FY 2005 (November due date).
7. For purposes of this fiscal note it is assumed that all property taxes reported for the statewide mill levies will be claimed as a credit (up to the $5,000 credit).
8. It is estimated that the amount of credit against individual income taxes in FY 2005 is $105,596,000. This amount is estimated to increase 3.58% each year.
9. The amount of credit against corporate taxes in FY 2005 is $0. It is estimated that the amount of credit against corporate taxes in FY2006 is $12,874,000. This amount is estimated to increase 2.00% each year.
10. Included in the totals are taxes that will be paid under protest (see technical note 19).
11. Not included in the total are taxes due and delinquent for years other than the current tax year (see technical note 20).
12. The statewide general fund mill levies are removed from the non-levy revenue distribution of oil and gas production tax. For purposes of this fiscal note it is assumed that this exclusion includes the 5% received from pre-1999 wells (15-36-324(12)(c), MCA), (see technical note 10). As a result, the state general fund will not see revenue from this source beginning in FY2005. The current law estimate of revenue for the state general fund from oil and natural gas production tax for all of FY2005 is $12,230,315. This revenue will be redistributed to local governments and local schools.

Individual Income Tax

13. This bill revises the state's individual income tax effective tax year 2005 by:
    a) capping the current full deduction for federal income taxes paid during the tax year at $5,000 ($10,000 if married and filing jointly);
    b) revising the tax rate table to provide for a seven-tier rate table with marginal rates ranging from 1% to 6.9%; and
    c) providing for a new tax credit equal to 2% of net capital gains.
14. Under this bill, the current law tax benefit rule continues to apply; that is, to the extent that taxpayers receive a tax benefit from the capped deductions for federal taxes provided for in this bill, they also will be required to report as income any portion of federal tax refunds previously included in the deduction. Capping the deduction in the manner provided for in this bill will significantly reduce the amount of income reported as federal income tax refunds in future years.

15. The bill provides for a new tax rate table for tax year 2005 which will be indexed for inflation in all future tax years.
16. Personal exemption and standard deduction amounts in current law are adjusted to accommodate a new base year from which adjustments to these items are calculated (tax year 2005). These adjustments result in personal exemption and standard deduction amounts that otherwise would occur under current law.
17. Based on the changes in the deduction for federal taxes, the new capital gains tax credit, and the new rate tables provided for in the bill, total individual income tax liability for all taxpayers is estimated to decrease by $37,568,000 in tax year 2005, and by $52,549,000 in tax year 2006 (DOR income tax simulation model).
18. The Department of Revenue will adjust withholding tables in tax years 2005 and 2006 to accommodate the reduction in tax liability; taxpayers making quarterly estimated tax payments will do the same. Based on these assumptions, general fund collections are estimated to *decrease* by $20,016,000 in FY 2005, and by $46,401,000 in FY 2006.

Low-Income Refundable Sales Tax Credit

19. Under this bill, low-income households are provided with a sales tax credit against individual income taxes. This credit is refundable; that is, taxpayers are entitled to a payment from the state to the extent that the credit exceeds the taxpayer's tax liability. Any refunded portion of the credit in excess of the taxpayer's tax liability constitutes taxable income for the year in which the payment is received.
20. The refundable sales tax credit applies to tax years beginning after December 31, 2004 (TY2005). Taxpayers will not claim this credit until they file their individual income tax forms in the spring of 2006; consequently, there is no impact from this credit in fiscal year 2005.
21. Under the provisions of this bill, one taxpayer per household will receive a tax credit based on total household federal adjusted gross income under the following schedule:

Household FAGI	Household Sales Tax Credit
$16,000 or less	$300
$16,001 - $20,000	$250
$20,001 - $25,000	$200
$25,001 – $30,000	$150
$30,001 - $35,000	$100
Over $35,000	$0

22. Based on tax year 2001 individual income tax returns, a total of 246,222 households filing individual income tax returns will receive an average tax credit of $226.38. A total of 23,978 households not currently filing an individual income tax return will fill a form to claim an average refundable credit of $300. The refundable sales tax credit provided for in this bill will reduce individual income tax collections by $62,933,800 annually, beginning with fiscal year 2006.

Sales Tax Administration

23. The Department of Revenue would need to implement a new data processing system to administer the sales and use tax and income tax rebates. The department would buy software from an outside vendor, and the department and the vendor would customize it. The department also would make minor modifications to the existing income tax system. Cost for the system would be $6,231,384 in fiscal 2004 and $224,803 in fiscal 2005. Computers and office equipment for contract programmers would cost $42,837 in fiscal 2004. Beginning in fiscal 2006, ongoing costs for software maintenance and storage on the state's network would be $220,000.

24. In fiscal 2004, the Department of Revenue would need to register 55,000 taxpayers, develop and mail tax forms and instructions, conduct taxpayer education and outreach, and hire and train new staff to administer the sales tax. Beginning in calendar year 2004, the department would process approximately 462,000 returns and audit 1,100 taxpayers each year. The department would begin hiring new staff for processing, compliance, and support work before the tax went into effect. By the end of fiscal 2004, 56 FTE would be hired, and an additional 29 FTE would be hired in fiscal 2005. Personnel costs would be $1,164,009 in fiscal 2004 and $3,215,364 in fiscal 2005. Costs for computers and office equipment for the additional staff would be $340,885 in fiscal 2004 and $246,770 in fiscal 2005. Operating costs, including forms development, travel by auditors, and consulting services from an experienced sales tax administrator from another state would be $485,199 in fiscal 2004 and $519,639 in fiscal 2005. Ongoing costs would be the same as in fiscal 2005 except for the equipment costs.

Public Schools

25. SB 470 allocates monies from the sales and use tax to fully fund the BASE budgets of K-12 school districts. The bill eliminates the BASE levy property tax requirements of school districts.
26. The distribution of oil and natural gas production taxes is based on the preceding fiscal year. The county equalization funds will receive an allocation of oil and gas production tax revenues in FY 2004, but not FY 2005.
27. SB 470 eliminates the distribution of the HB 124 block grant to the school district general fund beginning in FY 2005. The amount of the HB 124 block grant to the district general fund is estimated to be $43.0 million.
28. A school district will use its general fund balance reappropriated and any general fund non-levy revenues to reduce the property tax requirement for the over-BASE portion of the district general fund.
29. The basic and per-ANB entitlements are:

	FY 2003	FY 2004	FY 2005
Basic entitlement EL	$19,244	$19,244	$19,244
Basic entitlement HS	$213,819	$213,819	$213,819
Per-ANB entitlement EL	$3,906	$3,906	$3,906
Per-ANB entitlement HS	$5,205	$5,205	$5,205
Direct State Aid Percentage	44.7%	44.7%	44.7%

30. The statewide taxable valuation will increase by 4.0% in FY 2004 and by 5.5% in FY 2005.
31. Under current law, direct state aid will be $314.03 million in FY 2005. Guaranteed tax base aid to schools will be $94.93 million in FY 2005.
32. SB 470 does not affect the state special education appropriation. Special education payments will be $34.91 million in FY 2005.
33. Under current law, payments of direct state aid for unusual enrollment increases are anticipated to be $100,000 per year.
34. Under SB 470, direct state aid will be $575.35 million in FY 2005.

Redistribution of Oil and Gas Revenue

35. Under SB 470 the state 95 mills will no longer receive oil and gas revenue in FY 2005. This will distribute the $13.5 million currently received by the 95 mills to all other levies. This will increase the oil and gas allocation to all other levies by 51% in FY 2005. In FY 2005 school general fund mills will drop substantially, it is assume that half of the district general fund allocation will be redistributed in FY 2006 and beyond. This will increase all other levies allocation of oil and gas revenue by 82% in FY 2006 and beyond.
36. County retirement funds currently receive $3.5 million in oil and gas non-levy revenue. The increase to the county retirement levies is anticipated to be $1.8 million in FY 2005 and $2.9 million in FY 2006.

This increase in non-levy revenue will lower the state GTB cost for retirement by $360,000 in FY 2005 and $580,000 in FY 2006.

37. Montana University System 6-mill levy account currently receives $860,000 in oil and gas non-levy revenue. The increase to the 6-mill levy account is anticipated to be $439,000 in FY 2005 and $705,000 in FY 2006.

Distribution of remainder of sales tax revenue

38. Sales tax revenue in excess of that required to fund direct state aid increases, tax credits, and reductions in income tax rates is partially retained in the general fund and partially distributed to a Stabilization and Disaster Account and for income tax refunds.
39. In the first half of FY 2005, $187.2 million will be collected from the sales tax; the increased direct state aid to schools will be half of $261.32 million or $130.66 million. The remaining sales tax revenue, $56.54 million ($187.2 minus $130.66 = $56.54), will be distributed as follows: 55% or $31.10 million is retained in the general fund and 45% or $25.44 million is refunded to income tax payers (this refund is shown as an FY 2005 accrued expense actual distribution will occur in FY 2006).
40. In the second half of FY 2005, $280.26 million will be collected from the sales tax. The following will be subtracted from this amount: $130.66 million for increased cost for direct state aid to schools (see technical note 24), $105.60 for tax credits for statewide school levies, $0 for low-income sales tax refundable income tax credit, $20.02 million for the reduction in income tax credits and capital gains income tax credit. The balance after these adjustments is $23.99 million. Of this amount, 10% is deposited in the Stabilization and Disaster Account and 90% is refunded through the income tax payers (the refund is shown as an FY 2005 accrued expense actual distribution will occur in FY 2006).
41. In FY 2006 and thereafter the remaining revenue is distributed as follows: 20% the general fund for appropriation by the legislature, 8% is deposited in the Stabilization and Disaster Account and 72% is refunded through the income tax.

FISCAL IMPACT:	FY 2004 Difference	FY 2005 Difference
FTE – Department of Revenue	56.00	85.00
Expenditures:		
Department of Revenue		
Personal Services	$1,164,009	$3,215,364
Operating Expenses	6,716,583	762,442
Equipment	383,722	246,770
Sales tax refunds	0	47,035,800
Subtotal – Department of Revenue	$8,264,314	$51,260,376
Office of Public Instruction		
Local Assistance – Direct State Aid	$0	$261,320,000
Local Assistance – General fund GTB	0	(94,930,000)
Local Assistance – Retirement GTB	0	(360,000)
Local Assistance – HB 124 Block grants	0	(43,005,000)
Subtotal – Office of Public Instruction	$0	$123,025,000
Funding of Expenditures:		
General Fund (01)	$8,264,314	$174,285,376

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(continued)

Revenues:		
General Fund (01) Sales Tax	$0	$465,064,800
General Fund (01) Income Tax Credit	0	(105,596,000)
General Fund (01) Income reductions	0	(20,016,000)
General Fund (01) Non-Levy Revenue	0	(13,573,000)
State Special Revenue (02) Stabilization & Disaster	0	2,399,200
State Special Revenue (02) MUS 6-mill account	0	439,000
TOTAL	$0	$328,718,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($8,264,314)	$151,594,464
State Special Revenue (02) Stabilization & Disaster	$0	$2,399,200
State Special Revenue (02) MUS 6-mill account	$0	$439,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
1. Assumption 35 would also apply to other local revenues and would increase the local oil and gas revenue accordingly.
2. The funding of the BASE budget with sales and use tax monies will make non-levy revenues and fund balance reappropriated available to fund the over-BASE portion of the general fund budget. District property taxes are projected to decline by $170 million in FY 2005.
3. Property tax levies for county retirement are projected to decrease by $244,000 in FY 2005

LONG-RANGE IMPACTS:
Sales tax revenue would grow by about 3.1% each fiscal year. Sales tax revenue will be $482 million in FY 2006, $497 million in FY 2007, and $512 million in FY 2008. Individual income taxes are estimated to be reduced $46 million in FY 2006, $55 million in FY 2007 and by $58 million in FY 2008. The low-income sales tax credit would reduce revenues an estimated $62.934 million, annually. The school equalization property tax credit is estimated to reduce revenues by $122.250 million in fiscal 2006; by $126.423 million in fiscal 2007; and by $130.742 million in fiscal 2008. School direct state aid increased payments will be $261 million annually. With these revenues and expenditures SB470 will not provide revenue in excess of the costs listed in section 61 (4)(c)(I), which will give not refunds under section 61 (4)(c)(III). With the net savings in all expenditures, the net impact to the state general fund will be approximately $112 million per year.

TECHNICAL NOTES:
1. Subsection 13(2) exempts food purchased under the WIC program. The state pays for these purchases, and state purchases are exempted by section 12.
2. Section 11 exempts certain types of services from the sales and use tax. It defines those services with reference to the North American Industry Classification System (NAICS). The NAICS manual contains definitions of *industries*, not of *goods and services*. For example, subsection (a) exempts health services and cites NAICS sector 62. NAICS sector 62 consists of establishments whose primary function is providing health care and social assistance. Section 11 defines health services as hospitals and doctors' and dentists' offices This fiscal note assumes that the exemptions in section 11 are for sales in the primary lines of business that define the NAICS industries referenced, not for all sales by establishments in those industries. The NAICS industry classification system was developed by the Census Bureau and its counterparts in Canada and Mexico. The agencies are in the process of developing the North American Product Classification System (NAPCS), which will be a classification system for goods and services.

Preliminary NACPS definitions are available for some types of goods and services. Section 11 should reference NACPS definitions where they are available. Otherwise, the bill should provide definitions or leave definitions to the rulemaking process.

3. This bill taxes sales of tangible personal property. It exempts leases of mobile homes but does not specifically exempt sales of mobile homes. Mobile homes are personal property if they are not permanently attached to a foundation (See MCA 15-1-101(i)). This fiscal note assumes that sales of mobile homes would not be subject to the tax, but without an explicit exemption, a small percentage of sales of mobile homes technically would be taxable.
4. Subsection 11(e) makes several types of transportation services subject to the sales and use tax. States can not tax interstate commerce, so that only a portion of these services can be taxed. In particular, most truck transportation and most, if not all, pipeline transportation, is interstate.
5. This bill does not explicitly tax or exempt rental or lease of tangible personal property. However, since it exempts sale or lease of tangible personal property for subsequent lease and lease of real property and mobile homes, this fiscal note assumes that rental or lease of tangible personal property is a sale of a service and therefore taxable.
6. Section 39 requires sales tax returns to be filed within 20 days of the end of each reporting period. Section 41 allows a person filing a return under section 39 to retain a vendor allowance out of taxes collected. It appears that the intent is that only taxpayers who file timely returns may retain the vendor allowance, as is common practice in other states, but it should be made explicit.
7. Subsection 62(3)(d) directs the Department of Revenue to make payments to a taxpayer if the amount due to the taxpayer from the income tax rebate in this bill exceeds the amount of tax owed by at least $10. This needs to be coordinated with MCA 15-30-142(4) which directs the department to make income tax refunds when the amount to be refunded exceeds $1.
8. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.
9. Implementation of this tax will require the Department of Revenue to implement a computer system to automate the administrative requirements of registration, return processing, customer and revenue accounting, and compliance activities. The expenditure will involve millions as shown by this estimate. Projects of this size are normally pursued through a Request For Proposal procedure outlined by the Department of Administration and can routinely take up to 6 months of careful planning and review before selecting a vendor or product that meets the department's requirements. The proposed effective and applicability dates in SB 466 do not allow for the time required to proceed with the normal procurement processes defined in statute. Unless implementation of this act could be identified as an exception to those requirements, the effective date of the act may have to be amended to July 1, 2004 and applicable to sales occurring after June 30, 2004. Compressing timelines allotted to pre-project due diligence and vendor selection increases project risk.
10. Under current law, 5% of the oil and natural gas production taxes received from pre-1999 wells is distributed by the department of revenue to counties eligible for the revenue. The county treasurer is required by 15-36-324(12)(c), MCA, to distribute this revenue "in the same manner that all other property tax proceeds were distributed during fiscal year 1990". This requires distribution to the 6-mill university levy and the state general fund mill levies. The proposal does not amend this requirement. However, the proposal does amend 15-36-324(12)(i), MCA, a section of law requiring the county treasurers to remit to the state the taxes distributed under (12)(c) to the 6-mill university levy and the state general fund mill levies. Under the amendment, the county treasurer is no longer required to remit the state general fund revenue to the state. For the purposes of this fiscal note it is assumed that the intent was to amend 15-36-324(12)(c), MCA such that the state general fund no longer shared in the distribution of the 5% of the oil and natural gas production taxes received from pre-1999 wells.

11. Section 61 of the bill provides for allocation of revenue deposited in the sales and use tax account. Subsection 4 provides for allocations of sales tax received during each of the following periods: 1) calendar year 2004; 2) January 1, 2005 to June 30, 2005; and 3) for each fiscal year beginning after June 30, 2005. For the latter two of these three periods, the bill requires an allocation of revenue from the sales tax account sufficient to cover "the reduction of income tax rates". It will not be possible to administer this provision of the bill. First, the income tax reduction provided for in this bill reflects the combined impact of capping the deduction for federal income taxes at $5,000 ($10,000 if filing jointly), a capital gains tax credit of 2%; and a restructuring of the tax rate table applied to taxable income. The "rate reduction" is just one component of the total income tax reduction. Second, in order to determine the impact of the change in the individual income tax structure provided for in this bill in future years either taxpayers, or the Department of Revenue would have to provide precise calculations of each taxpayer's tax liability under the law in effect at the time of the required allocation, as well as the tax liability that would have occurred for each taxpayer if the law had never been changed. To do this would require having information that no longer will be available in future years; that being the amount of federal taxes that would have been deducted under the old law, the amount of federal income tax refunds that would have been reported under the old law. Because this information will not be reported on income tax forms under the proposed tax structure in this bill, the calculation of the reduction due to the change in tax rates, or for the change embodied in the entire income tax structure change, would be impossible to calculate.
12. Section 62 of the bill creates the revenue stabilization and disaster account in the state special revenue fund. Subsection 3 provides that the balance in the account is limited to an amount equal to 6% of all general fund appropriations for the biennium. Based on language in subsection (4)(c)(iii)(A) of Section 61, which provides that sales tax revenues are to be deposited 10% to this account if the account has not reached its limit, this is assumed to mean that once this amount is reached no further revenue would be deposited into the account. However, subsection (4)(A) of Section 62 provides that if the balance in the account exceeds the limit by at least $15 million the excess balance is to be refunded to income taxpayers. Given the above limitations, it is not clear why there would ever be any excess funds in the account to rebate.
13. Section 65 of the bill provides for a refundable tax credit equal to a taxpayer's property taxes associated with the 101 state mills for individual income tax purposes. This section provides that a "taxpayer" is entitled to the credit. Generally, married couples who file separate individual income tax returns live in a single residence and receive a single property tax bill. Nothing in this section appears to prevent both of these "taxpayers" from claiming the same credit against each of their individual income tax liabilities. It is assumed that the intent of this section is to provide for a single credit per household for the property taxes associated with the 101 mills. In this case, this section should be amended to provide that married couples who file separately may not both claim the credit.
14. Section 74, amending the definition of "inflation factor" changes the base year to tax year 2004. Because the income tax provisions of the bill do not take effect until tax year 2005 this reference should also be amended to be 2005.
15. Section 76 increases the personal exemption value to $1,840 to reflect the new base year for inflation factor purposes. Because the base year should be 2005 the personal exemption value should be amended to be $1,900.
16. In Section 78, the standard deduction amounts of $1,530 and $3,460 should be amended to $1,580 and $3,560 to reflect the base year for inflation of 2005.
17. In Section 79, the values of $3,460; $6,920; and $1,840 should be amended to be $3,560; $7,120; and $1,900; respectively, to reflect the shift to the base year for inflation of 2005.
18. Section 111 provides that Section 65 through 68 (the sections providing for the refundable school equalization property tax credit) apply to property taxes imposed after October 31, 2003. The term

"imposed" has no definitive meaning in the context of property tax application. A better term would be "assessed". Because Section 73 requiring the county treasurer to delineate the property taxes associated with the 101 mills on the taxpayer's property tax bill is not effective until July 1, 2004; the date in Section 111 subsection (3) should be moved to "property taxes assessed on or after the effective date of this bill".

19. Property taxpayers who pay under protest (15-1-402, MCA) are still entitled to the school equalization credit included in the bill. A taxpayer who is partly or completely successful in their protest will receive a portion of the property taxes paid to the statewide mill levies. This would result in the school equalization credit received being larger than the actual amount of property tax paid to the statewide mill levies.
20. Included on the property tax notice (15-16-101, MCA) is the amount of taxes due and delinquent for years other than the current tax year. As written, the proposal would allow the school equalization credit on the statewide mill levied portion of delinquent property taxes. This is in effect an amnesty on delinquent property taxes due the statewide mill levies.

Office of Public Instruction

21. The Sections amending 17-7-301, 20-3-106, and 20-9-351 should be struck from SB 470. The references in these sections to "guaranteed tax base aid" should remain in statute because guaranteed tax base aid continues to exist for county retirement.
22. Section 86 (amending 20-9-141) needs to be amended to include tuition payments in the list of revenues available to reduce the general fund levy requirement.
23. Oil and gas production taxes are no longer distributed to the county equalization levies under SB 470. It is unclear whether this was the intention as all other revenues continue to flow to the county equalization accounts.
24. Section 61 allocations for January 1, 2005 to June 30,2005, and after June 30, 2005 refer to the whole amount of direct state aid to schools, but no special education. The allocations for calendar year 2004 state an amount equal to the difference between 44.7% and 80% of the basic and per pupil entitlement plus 40% of the special education allowable cost payment. The fiscal note assumes that the calendar year 2004 definition is used for the entire bill.

DEDICATION OF REVENUE:

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
None known.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
None known.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Sales tax revenue would be less than the targeted expenditures in fiscal 2004 and more than the targeted expenditures in fiscal 2005.

d) Does the need for this state special revenue provision still exist? ___Yes ___No (Explain)
State funds for schools are currently appropriated from the general fund and the guarantee account. This bill would make the same appropriations from a new special revenue account.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
Because it transfers funds between state accounts, this bill will appear to increase both state revenues and state expenditures by more than it actually does.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
State funds for schools are currently appropriated from the general fund and the guarantee account. This bill would make the same appropriations from a new special revenue account.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
With some other taxes, funds initially are deposited in a separate account before being allocated to other accounts, and a balance is retained in that account to cover potential refunds. This bill sets up a separate account for sales tax revenue but does not provide for a balance in the account to cover potential refunds.